



REPORT HIGHLIGHTS

Report 2003-38

OFFICE OF CITY AUDITOR – SEATTLE

May 18, 2005

A copy of the Office of City Auditor's full report regarding Business Taxes and Licensing can be obtained at the Auditor's website at <http://www.seattle.gov/audit> or by calling (206) 233-3801. Please direct any questions or comments regarding this report, or suggestions for future audits to Susan Cohen, Seattle City Auditor, at (206) 233-3801 or susan.cohen@seattle.gov.

BUSINESS TAXES AND LICENSING

AUDIT OBJECTIVES

The City requires businesses operating in the City to obtain a City business license and file City business taxes. These taxes include Business & Occupation (B&O), utility, admission, and gambling taxes. In total, these taxes represent \$250 million in revenue or about 27% of the City's total annual revenues.

Our review focused on the Department of Executive Administration's Revenue and Consumer Affairs Division's administration of Seattle's business tax and license operations, with an emphasis on those financial controls that could have a financial impact on the City.

RECOMMENDATIONS

To maximize recovery of business tax and license revenues, the City should hire additional staff for the Tax Audit and Enforcement groups within Revenue and Consumer Affairs. We estimate the current level of staffing may be costing the City several million dollars in potential revenues.

The City should also improve some of its payment handling practices, tax return processing, exception transaction review, legal action practices, and the timeliness of tax refunds.

THE CITY OF SEATTLE COULD RECOVER ADDITIONAL BUSINESS TAX AND LICENSING REVENUES

Overall, we found controls were adequate for the City's business licensing and taxation operations. However, we believe the City could recover several million dollars more in tax and license revenues annually by adding resources to its Tax Audit and Enforcement groups.

The Tax Audit group within the City's Revenue and Consumer Affairs unit audits businesses to determine whether they have reported City taxes accurately, or if they owe additional taxes. The vast majority of tax audits result in a tax assessment to the business. Each tax auditor's efforts normally result in recoveries of between \$500,000 and \$750,000 annually, which is far more than an auditor's wages and benefits.

The Enforcement group within Revenue and Consumer Affairs identifies businesses operating within the City without a City business license, follows up with non-compliant businesses, and works towards bringing them into compliance. Each Inspector's efforts normally result in recoveries of between \$300,000 and \$400,000 annually, which is far more than an inspector's wages and benefits.

The following table shows the groups' revenue recoveries for the past six years:

Years	Tax Audit Recoveries	Enforcement Recoveries
1999	\$ 4,988,583	\$ 3,087,442
2000	\$ 6,101,617	\$ 3,320,588
2001	\$ 5,398,928	\$ 3,548,364
2002	\$ 6,756,423	\$ 4,080,081
2003	\$ 16,343,692	\$ 3,086,230
2004	\$ 7,496,836	\$ 3,298,751

Audit results and Revenue and Consumer Affairs account delinquency reports clearly indicate that many businesses operate without a license, under-report taxes, and/or do not report taxes at all; consequently, the City's tax audit and enforcement efforts are necessary in order to recover this potential revenue.